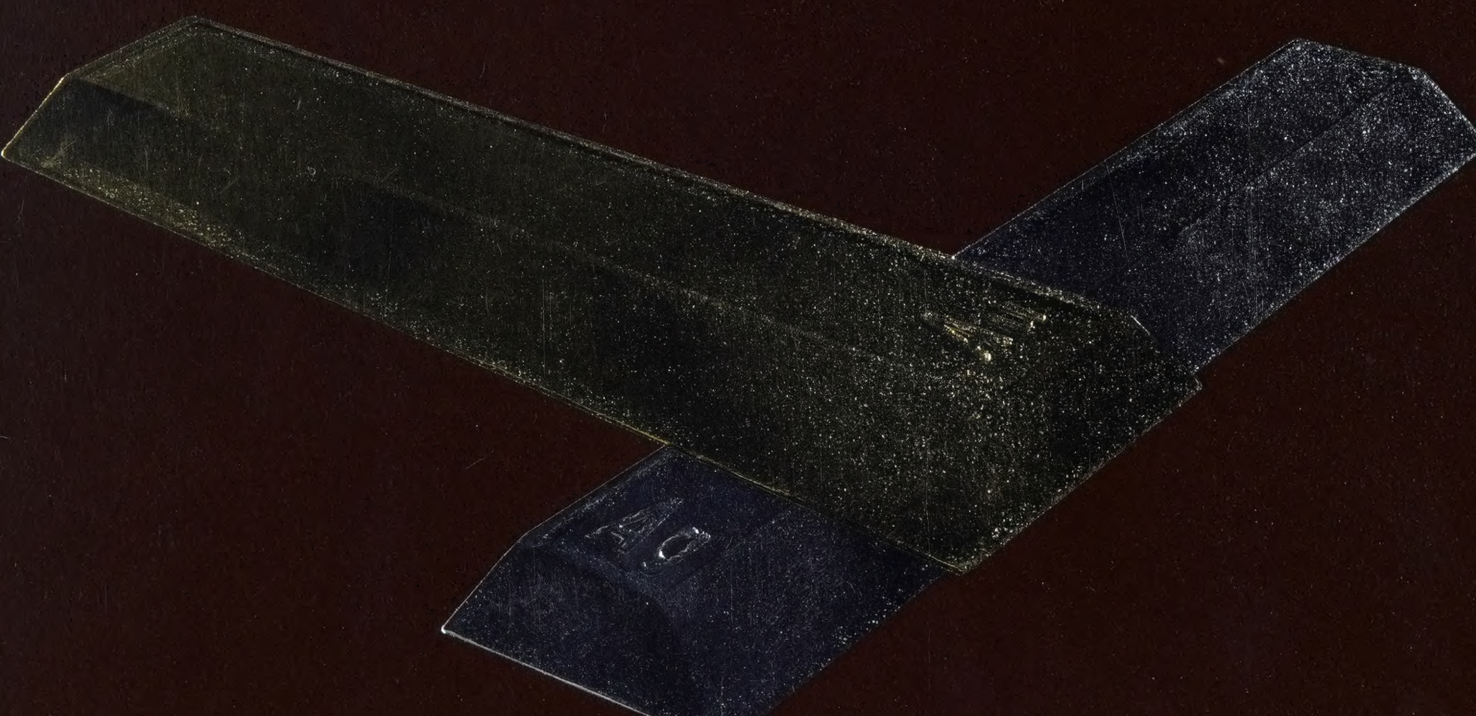
annual report 1977



AGNICO-EAGLE
mines limited

Above: *The old Temiskaming Mine, one of Cobalt's early producers now owned by Agnico-Eagle, recorded a recovery of 11.7 million ounces of silver in the period between 1904 to 1922, all of it obtained from the upper contact of the Nipissing diabase. The Temiskaming and the nearby Beaver shafts were the only two openings that were sunk down through the thick sill to the approximate 1,600 foot horizon in the Cobalt Camp. In contrast, most of the Cobalt producers which obtained their production from the lower contact of the Nipissing, generally mined from depths of 500 feet or less.*

Below: *Shaft headframe and mining plant at the Beaver Mine. The Beaver and Temiskaming shafts are connected by a crosscut on the 1600 foot level and during 1975-1977 over 4,000 feet of crosscutting and drifting had been completed from this underground access.*

AGNICO-EAGLE mines limited

AUDITORS

Starkman, Kraft, Rothman, Berger & Grill,
Chartered Accountants, Toronto, Ontario

SOLICITORS

Shibley, Righton & McCutcheon,
Toronto, Ontario

BANKERS

The Toronto-Dominion Bank,
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada
88 University Avenue, Toronto, Ontario
427 St. James Street, Montreal, Quebec

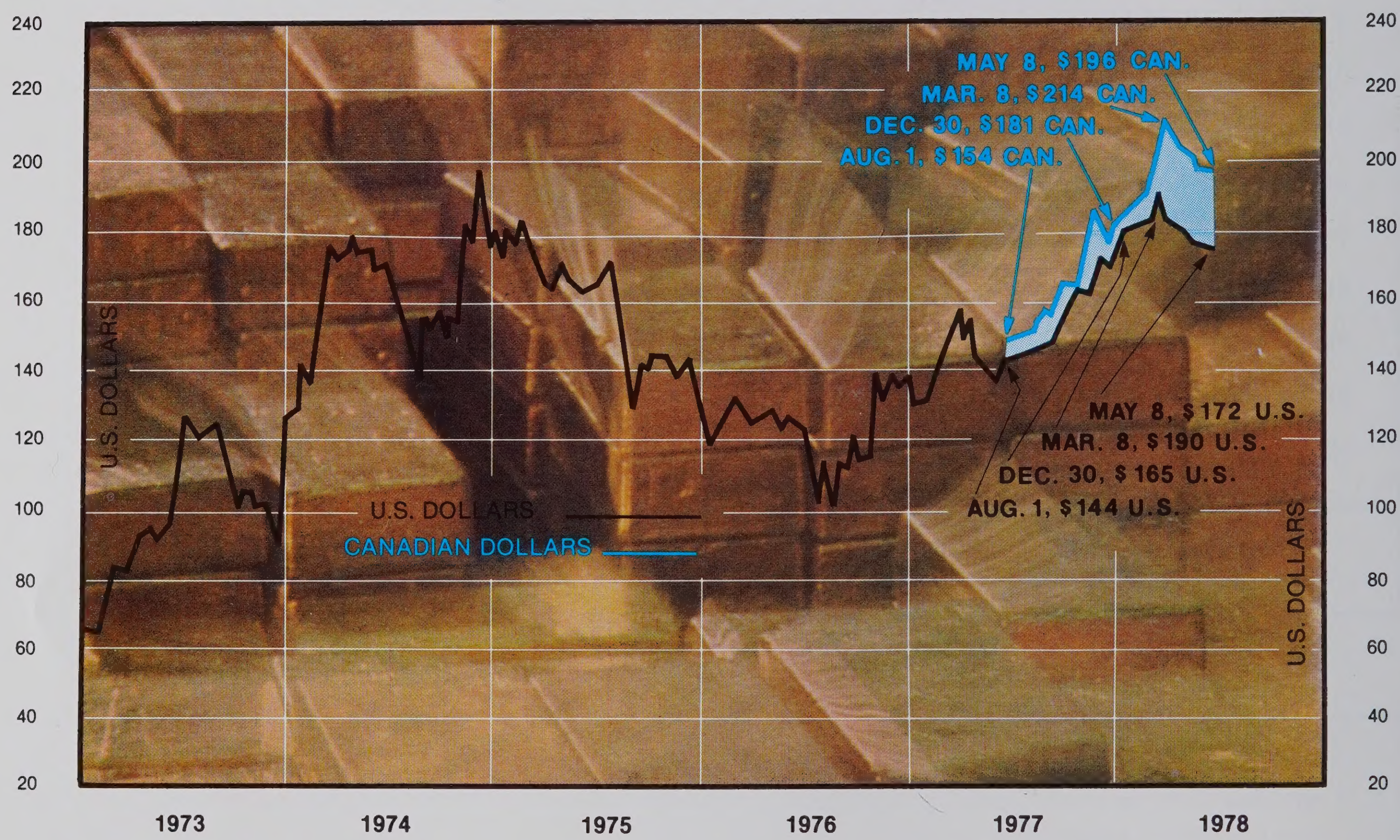
SHARE LISTINGS

The Toronto Stock Exchange, Toronto, Canada
Montreal Stock Exchange, Montreal, Canada
Ticker Symbol "AGE"
O.T.C. in United States of America
NASDAQ Symbol "AEAGF"

ANNUAL MEETING OF SHAREHOLDERS

Friday, June 23, 1978 at 10:00 a.m. (Toronto Time),
Alberta Room, Royal York Hotel,
Toronto, Canada

Weekly Average Gold Price, Second Fixing — London Gold Market



President's Report to the Shareholders

FINANCIAL HIGHLIGHTS

Financial results for 1977, showing consolidated cash flow from operations of $2,585,516 or more than double the 1976 figure of $1,133,732, principally reflects the significantly higher prices received for gold produced during the year.

Against an average price received for all of 1977 of $158.14 per ounce ($123.55 in 1976), the average for the 1977 fourth quarter was $177.60 per ounce and for the 1978 first quarter, a record high to date of $197.12 per ounce. These prices are expressed in Canadian dollars which is the relevant currency for your Company.

During 1977, the Canadian dollar was at an average discount of 6% compared to the U.S. dollar. This contrasts with an average 2% premium for the Canadian dollar in equivalent U.S. currency terms for the previous year.

The current discount of the Canadian dollar compared to the U.S. dollar is in excess of 12% which, in terms of the gold price on May 4, 1978 following the latest IMF auction of US$173.30 per ounce, equates to a Canadian price of $195.24 per ounce.

The expectation of continuing problems of international liquidity, spiralling U.S. balance of payments deficits and the resulting erosion of the value of weaker paper currencies, clearly underscores the real worth of gold. The fact of the discount of the Canadian dollar, which is forecast to continue for some time to come, enhances the probabilities of higher realized gold prices for Canadian bullion producers.

Other important financial highlights for your Company in 1977 include the increase in working capital during the year of $933,007 resulting in working capital at year end of $159,289 as compared with a working capital deficiency a year earlier of $773,718.

This substantial improvement in working capital during 1977 is after provision for deferred expenditures totalling $1,452,944 and purchases of additional machinery, equipment, etc., amounting to $91,945. These items are reflected in the increased amounts for amortization and depreciation in the consolidated statement of income, which in 1977 were higher by $450,907 over those in the comparative 1976 statement of income.

Bank indebtedness at year end of $1,184,657 shows a substantial reduction from the year earlier figure of $1,705,000. It is indeed gratifying to report that subsequent to the 1977 year end, your Company retired all bank borrowings and currently has a cash surplus.

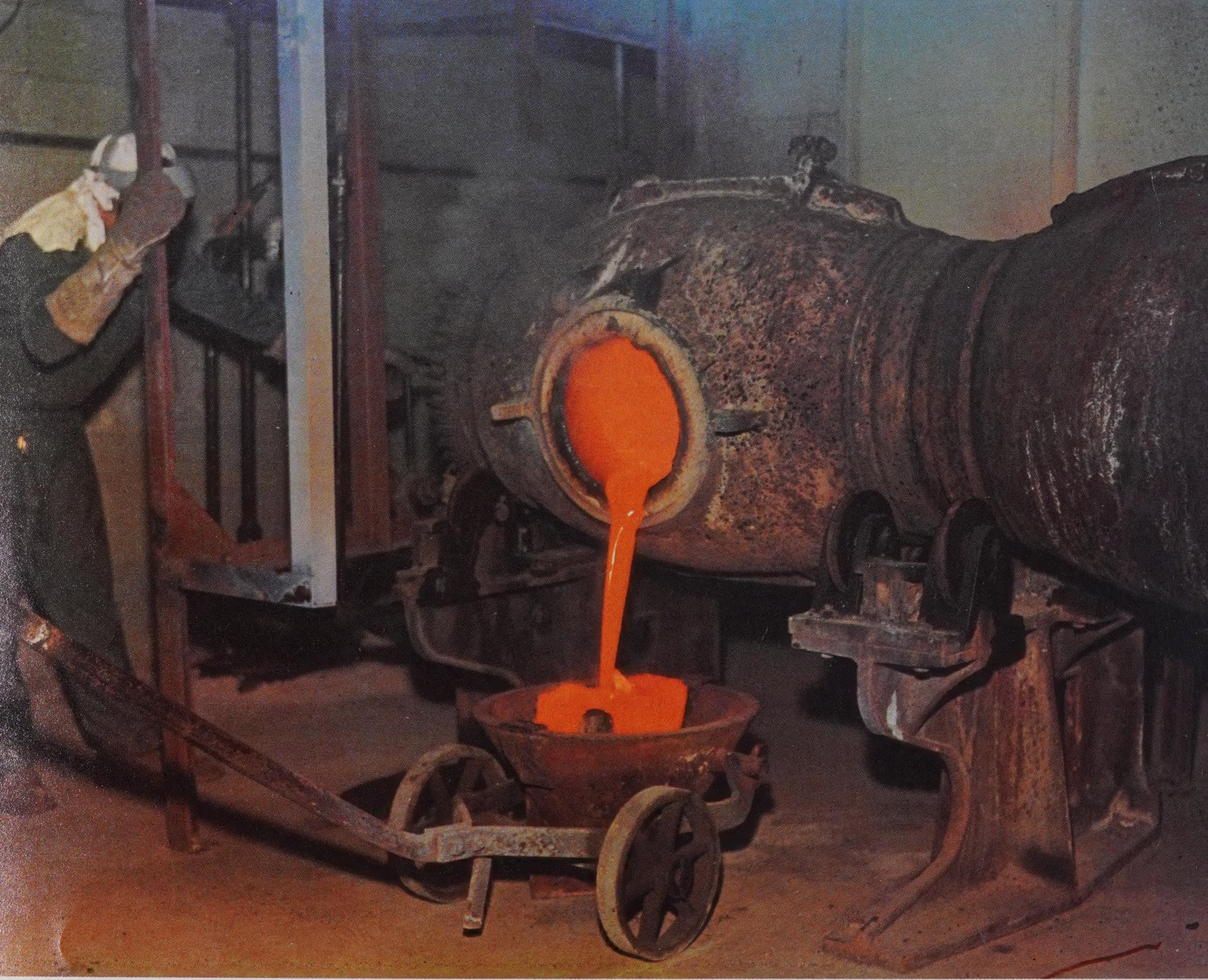
It is also pertinent to note that the Gold Mining Division had an operating profit for the year of $3,330,854 against $2,003,935 for the previous year. In contrast, the Silver Mining Division had an operating loss of $189,524 for 1977 which, however, compares with the 1976 operating loss for this division of $311,065.

The impact of the improved gold price is clearly demonstrated in the financial results for the 1977 fourth quarter during which the Gold Mining Division recorded an operating profit of $1,078,273 and combined with the results from the Silver Mining Division resulted in consolidated cash flow from operations of $1,032,335 and a 'bottom-line' figure, after deductions for amortization and depreciation, of $12,373.

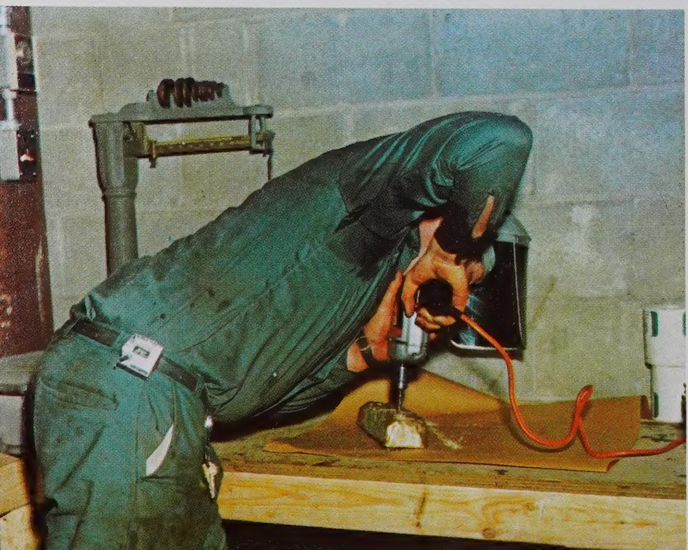
Cash flow represents monies generated from operations before deductions for depreciation and amortization which do not require a current outlay of cash. In effect, it is the cash available to the Company after all expenditures other than amortization of deferred items.

As previously mentioned, cash flow from operations in 1977 amounted to $2,585,516 and after deduction of non-cash items including amortization and depreciation totalling $2,946,877, a resulting consolidated net loss for the year of $361,361 equal to 2.6¢ per share. While this is short of expectations, it is a considerable improvement over the 1976 net loss of $1,362,238 or 9.8¢ per share.

Gross revenue from the production of gold and silver bullion during 1977 totalled $11,069,222 of which $958,354 was derived from the Silver Mining Division and $10,110,868 from the Gold Mining Division. The comparative figures for 1976 were gross revenue of $8,702,653 of which $761,986 came from the Silver Division and $7,940,667 from the Gold Division.



Above: *The refinery furnace at the Agnico-Eagle Mines Limited gold division is shown here during the pouring of a gold bar which usually contains about 800 ounces of gold. The refinery furnace is charged with a mixture of gold precipitate and flux and, after heating to a temperature of about 2,500° F., the molten gold is poured into molds where the gold, owing to its high density, separates from the slag.* **Lower Left:** *Gold bar being test-drilled to determine its purity.* **Lower Right:** *The bar is weighed before shipping to the Royal Canadian Mint at Ottawa, Ontario.*



RESULTS FOR THE 1978 FIRST QUARTER

Gross revenue for the Gold Division during the first quarter of 1978 was \$3,046,556 and a net division cash flow of \$1,253,029. Gold production amounted to 15,356 ounces from the treatment of 89,350 tons of ore.

Gross revenue from the Silver Division for the first quarter of 1978 amounted to \$38,781 and a net division negative cash flow of \$117,275. Silver production was limited owing to the shut down of the Penn Mill on January 11th due to adverse weather conditions. Silver production was 7,931 ounces from the treatment of 1,280 tons of ore. The Penn Mill is scheduled to resume operations during May.

Consolidated cash flow for the first quarter of 1978 amounted to \$1,019,391. Deduction of non-cash items including amortization and depreciation totalling \$572,987 together with head office, administrative and other expenses resulted in a consolidated net profit for the quarter of \$446,404. This compares with the 1977 first quarter loss of \$128,964.

GOLD DIVISION

With the completion during October, 1977 of the 1,100 foot deepening of the shaft to its objective depth at 2,965 feet,a major program of underground development and exploration will now proceed in the mine and adjacent areas below the current bottom production level at 1,500 feet.

The appended longitudinal section (see foldout at the back section of this Report) shows the approximate current status of the underground work below the 1500 level.

Level intervals are at 150 feet and stations have been cut down to and including the 2850 level. Initial stope preparation will be undertaken on the 1800 level which was previously driven for a distance of some 700 feet from the shaft. Drifting is currently in progress on the 2550 level which will be extended into the adjacent Company-owned Telbel property for a total projected distance of up to 2,000 feet.

The drive on the 2550 level is a major exploration project enabling the testing of both the downward continuity of the major ore zone and its lateral extent into the Telbel property. At the end of March the 2550 level drift had been advanced nearly 500 feet and an expected rate of advance of approximately 250 feet per month. Lateral work is also in progress on the 2250 level.

A new crusher has been excavated below the 2550 level and this second crusher is scheduled to be in operation by the third quarter of 1978. The ore and waste pass system is being simultaneously advanced to connect all levels to the sump at the 2850 level.

A total of 2,058 feet of drifting, 2,314 feet of raising and 5,021 feet of underground diamond drilling was completed during the first quarter of 1978 in conjunction with this major development program in the deeper areas of the mine now accessible with the completion of the shaft deepening program. An extensive program of exploratory drilling is being undertaken concurrent with the preparation of the new lower levels, enabling the first opportunity to evaluate the very appreciable area of potential ground below the previously partially tested maximum depth of around 2,300 feet below surface.

The tenor of gold values obtained in the comparatively limited drilling carried out below the 1500 and 1800 levels during 1976 indicates ore enrichment at these lower horizons. It is noteworthy that in excess of 1.1 million tons of indicated ore reserves are attributable to the area between the 1500 level and the approximate area of the 2250 level.

With an average 22% allowance for mining dilution estimated for these reserves, the grade at 0.26 ounce of gold per ton is approximately 30% above the average treated during 1977.

Mining Operations

Mining and milling operations were normal during the year with throughput rates approximately 5% above the 1976 levels. Grade of ore at 0.197 ounce per ton was moderately lower than the 0.206 ounce per ton treated in 1976 and was again below reserve grade due to involuntary mining dilution. A closer balance to reserve grade can be expected during the remainder of the current year.

A notable achievement in the 1978 first quarter was the record rate of overall gold recovery at 91.69% with flotation recovery at a very creditable average of 99.49% during this period.

Operating costs at $18.45 per ton of ore milled increased a modest 7.4% over the 1976 rate which compares very favourably with the operating experience of most Canadian gold producers.

Costs per ounce of gold recovered averaged $105.64 for 1977 compared with $92.27 per ounce in 1976, however, this is largely a factor of the lower grade of ore treated and significant reductions can be expected latterly in 1978 with the opening up of the new stopes below the 1500 level where grade of ore should be appreciably above the average mined during 1977 and the first quarter of 1978.

The detailed report of the mine manager, gold division, appears on pages 10 to 13.

SILVER DIVISION

The substantial program of underground exploration and development at the Beaver-Temiskaming Project, which was described in considerable detail in the 1976 Annual Report, continued throughout the year. A total of 30,661 feet of diamond drilling was completed during 1977 and a further 7,851 feet during the first quarter of 1978.

This long range program, which has been continuous since late 1975, involves six properties covering a combined area of some 300 acres and includes former producing mines which obtained significant silver production from the overlying contact of the Nipissing diabase sill.

The present program is directed toward the lower contact of the diabase which in other sections of the Cobalt Camp produced some 500 million ounces of silver representing more than 80% of the total production since discovery in the early 1900's. The assemblage of six properties acquired by your Company (including the Prince property adjacent to the north of the Beaver which was added during 1977) includes the Temiskaming and Beaver shafts which were sunk to depths of approximately 1,600 feet by former operators. These shafts provide the only access to the lower contact of the Nipissing diabase in this southern part of the Cobalt Camp.

The 1977 program located silver intersections in five separate areas resulting in two of these being mined. Stoping operations were carried out during March, 1978 in the south end of the 1601 stope where a very rich pod of highgrade silver was encountered approximately 40 feet from the diabase sill.

This property assemblage involves a very extensive area of potential ground in a favourable geological setting but with typically highly complex and erratic vein structures. The access through the deep shaft and related extensive underground workings provides the somewhat unique opportunity for exploration drilling to test the considerable area of still unexplored ground.

Mining Operations

The principal source of mill feed during the year came from the Coniagas Mine which is about four miles northwest of the Beaver-Temiskaming Project. During the eight month period of operation of the Penn Mill, a total of 198,811 ounces of silver was produced from 44,362 tons of ore milled. The value of this production was $958,354. This production compares with 192,884 ounces of silver from 41,455 tons milled in 1976 having a value of $761,586. The increase in value of production is substantially due to the higher silver prices obtained which averaged $4.82 per ounce in 1977 as compared with $3.95 per ounce in the previous year.

The detailed report of the mine manager, silver division, appears on pages 14 and 15.

GOLD OUTLOOK

World gold markets have not only survived but literally thrived during a period from early 1975 when the United States assailed markets with two separate dumps of bullion totalling 1.25 million ounces in a six month period to June of that year, followed by the U.S. manipulated IMF sales plus "restitutions" totalling more than 26 million ounces over the intervening period from June, 1976 to date.

On April 19, 1978 the U.S. Treasury, in an all too obvious attempt to dampen down the preference of investors for gold over fiat currencies, announced its intention of pouring an extra 300,000 ounces of gold per

month on the gold market over an initial six month period commencing May 23, 1978. The move is typically psychological for this amount of gold represents an approximate 3% increase over the annual supply of approximately 53 million ounces from all sources including newly mined gold and sales from Communist countries.

Although the initial impact of the IMF sales pushed gold prices to a low of $103 per ounce in August of 1976, prices recovered both strongly and steadily reaching a peak of $190 per ounce on March 8, 1978 (a price that equates to $214 per ounce in Canadian dollars) and has since found a solid support level above $170 per ounce.

The emerging pattern of fundamental strength in world bullion markets during and subsequent to 1977, clearly indicates that the equilibrium price is at least close to current levels, and during the predictable periods of international liquidity problems, powerful inflationary pressures, the price of gold will surely rise to levels above $200 per ounce during the current year.

The most recent IMF auction on May 3rd where bids were received for six times the amount of gold offered provides positive evidence that gold is supreme over weak paper currencies, and the ultimate hedge against the eroding value of just about any other yardstick of worth in today's world.

GENERAL

The year 1978 will see your Company embarking on an intensive underground program of exploration and development at its gold mine in Joutel, Quebec, unmatched by any other period in the prior history since the sinking of the original shaft more than 10 years ago.

The directors and management again express appreciation to all members of our operating force, as well as our engineering, mining and geological consultants, for their combined contributions and dedicated efforts throughout the year.

On behalf of the Board of Directors,

Paul Penna

President and Managing Director

Toronto, Canada
May 11, 1978

The headframe and mining plant at the Beaver-Temiskaming Property, Cobalt Camp, Ontario. The extensive underground program at this group of former producing mines, exploring and developing the underlying lower contact of the Nipissing, is the continuation of a program that was initiated in 1971.

Gold Division
Casier Postal
P.O. Box 310
Joutel, Quebec J0Y 1N0

AGNICO-EAGLE
mines limited

Report of the Mine Manager (Gold Division)

April 21, 1978

The President and Directors,
Agnico-Eagle Mines Limited,
Suite 300, 365 Bay Street,
Toronto, Ontario M5H 2V1

Gentlemen:

I am pleased to submit the following report regarding operations at the Gold Division of Agnico-Eagle Mines Limited for the year ended December 31, 1977.

Summary

The value of bullion production for 1977 was $10,110,868. During the year a total of 363,526 tons of ore with a calculated average grade of 0.197 ounce of gold per ton was treated yielding 63,480 ounces of gold and 14,949 ounces of silver, the latter produced as a by-product.

Overall recovery of gold in the mill averaged 88.65% for the year, moderately lower than the 1976 average of 90.19%. Recoveries were substantially improved during the first quarter of 1978 at 91.69%.

Ore reserves show a decrease of 262,099 tons after deducting the tonnage mined during the year. This is substantially a factor of revisions of previous ore reserve calculations in the upper levels of the mine. The emphasis on the development of the upper levels of the mine and the shaft deepening program which was carried out concurrently with mining operations utilizing mine employees, again restricted the usual efforts toward the development of replacement ore reserves during 1977.

With the completion of the shaft deepening project and lateral development in the upper part of the mine, mine crews have now been transferred to the new lower levels where development work together with underground exploration will be concentrated.

Production

In 1977 the mill treated a total of 363,526 tons of ore, an average per calendar day of 996 tons with the mill operating at approximately 96% of available time. On the basis of actual operating days, the average throughput rate for the year was 1,042 tons. The calculated grade of ore treated during the year averaged 0.197 ounce of gold per ton, moderately lower than the 1976 average of 0.206 ounce per ton. Gold production totalled 63,480 ounces in 1977 at a recovery rate of 88.65% compared with 64,343 ounces in the previous year at a recovery of 90.19%.

Comparative production figures for previous years are as follows:

Year	Production Tons	Grade Oz/Ton	Recovery %	Costs Per Ton
1974	194,702	(tune-up period)		$16.80
1975	309,524	0.233	82.14	$16.81
1976	345,538	0.206	90.19	$17.18
1977	363,526	0.197	88.65	$18.45

The grade of ore treated during the year continued to be below the reserve average of 0.25 ounce per ton for the mine area above the 1500 level due to involuntary dilution. Grade of ore treated is expected to increase by the end of 1978 when new stopes are brought into production below the 1500 level and modifications of present mining methods are incorporated to achieve a closer relationship between mill feed and reserve grade.

Operating Summary

Production		Year 1977
Tons Milled		363,526
Recovery %		88.65
Grade Oz/Ton Gold		0.197
Content Ozs. Gold		63,480.500
Silver		14,948.644
Average Value Oz. Gold	$	158.14
Silver	$	4.81

Revenue		Per Ton
Gold	$10,038,934	$27.61
Silver	71,934	.20
Total Revenue	$10,110,868	$27.81
Marketing Charges	73,682	.20
Division Revenue	$10,037,186	$27.61

Expenses		
Mining	$ 3,545,372	$ 9.76
Milling	3,160,291	8.69
Administration	669	—
Total Operating Expense	$ 6,706,332	$18.45
Operating Profit	3,330,854	9.16
Capital Expenditures	87,775	.24

Underground Development

The shaft deepening project was completed to 2,965 feet during October. Lateral development in the upper part of the mine was virtually completed during the year. Mine crews have been transferred to the new lower levels and ore pass, waste pass and crosscut development is proceeding. A new crusher room has been excavated below the 2550 level and this second underground crusher facility should be in operation by the

Looking northeast across the surface plant at the Joutel Township gold mine of Agnico-Eagle Mines Limited. The new mill extension is housed in the area of the main building toward the lower left hand corner. The Harricana River is northeast of the plant site.

third quarter of 1978. The long exploration drive east of the shaft at the 2550 level to the contiguous Company-owned Telbel property is now in progress. An exploration drive on the 1050 level has been extended approximately 1,000 feet beyond the presently defined westerly limit of the main ore zone.

The following is a summary of the development completed in 1977 with comparative data for 1976:

	1977	1976
Drifting and crosscutting — feet	10,073	8,366
Raising — feet	5,429	4,469
Shaft deepening — feet	889	186
Total tons of ore broken (development and mining)	363,776	345,528
Total tons of waste broken	31,791	47,823
Long hole drilling — feet	170,340	148,647
U.G. Diamond drilling — feet	17,943	18,060

Ore Reserves

Total proven, probable and indicated ore reserves at December 31, 1977, including an average 25% allowance for mining dilution, were 1,597,030 tons of 0.25 ounce of gold per ton. This is a decrease of 262,099 tons after the milling of 363,526 tons in 1977. Details of the ore reserves are as follows:

Category	Tons at Year End 1977	Tons at Year End 1976
Proven ore — tons	485,440	599,688
— oz/ton	0.20	0.25
Probable ore — tons	214,876	359,470
— oz/ton	0.26	0.29
Total Proven and Probable — tons	700,316	959,158
— oz/ton	0.22	0.26
Indicated ore — tons	896,714	1,263,497
— oz/ton	0.27	0.29
Total — all categories — tons	1,597,030	2,222,655
— oz/ton	0.25	0.28

Of the foregoing total ore reserves, 1,113,609 tons grading 0.26 ounce of gold per ton (approximately 70%) occur below the 1500 level to the approximate 2250 horizon. This includes an average 22% allowance for mining dilution.

General

Labour relations continued favourable throughout the year. The work force at 180 is approximately the same as last year.

In conclusion, I would like to take this opportunity to again thank all employees and staff for their loyal and efficient work during the past year.

Respectfully submitted,

D. J. LaRonde, B.Sc., P.Eng.
Mine Manager

Silver Division
P.O. Box 140,
Cobalt, Ontario P0J 1C0

AGNICO-EAGLE
mines limited

Report of the Mine Manager (Silver Division)

April 20, 1978.

The President and Directors,
Agnico-Eagle Mines Limited,
Suite 300 - 365 Bay Street,
TORONTO, Ontario M5H 2V1.

Gentlemen:

I am pleased to submit the following report covering the operations of the Silver Division of Agnico-Eagle Mines Limited for the year ended December 31, 1977.

PRODUCTION

Production during the year was mainly provided by the Coniagas Mine with a modest amount from the Beaver-Temiskaming Mine. The Penn Mill operated from May to December producing 198,811 ounces of silver from 44,362 tons milled.

The following is a summary of the main production items:

Ounces silver produced	198,811.01
Pounds cobalt produced	7,658
Gross value of metals sold	$958,354.02
Gross value per ounce of silver	$4.82
Tons ore milled from company properties	44,362
Tons ore hoisted	39,156
Calculated head ounces silver/ton	5.29
Recovered ounces silver/ton	4.48
Extraction efficiency	84.69%

EXPLORATION AND DEVELOPMENT

Coniagas Mine — During the first part of the year some raising and sub-drifting was carried out on a small silver zone above the 248′ level in the #73 Shaft area. Later in the year when broken ore had been hoisted to surface, the pumps were removed from the shaft to allow the workings to flood in order to thaw frozen ore in stopes near surface. It is expected that this ore will be recovered during the summer.

The open stope area west of the shaft has been worked throughout the year. Broken ore was provided by slashing the walls of the old stopes where small veins and disseminated silver occur and by sub-drifting on richer veins which were then stoped.

As work progressed to lower horizons in the open stope area, a new inclined haulageway had to be established to facilitate the removal of broken ore.

A total of 1,685 feet of exploration drilling was carried out in the pillars of the open stope to locate branch veins and small ore shoots.

Beaver-Temiskaming Mine – Exploration and development work was mainly carried out on the Beaver and Cobalt Lode properties.

A small ore zone containing pods of high grade silver in the Beaver winze area was developed and mined on the 65′ level. When diamond drilling indicated the ore zone extended only a short distance beneath the level, it was developed and mined by driving a short decline rather than by deepening the vertical winze.

A strong calcite vein containing silver values was drifted on north of the Beaver shaft on the 1600′ level. Silver values at this horizon were found to be very erratic. The vein was subsequently tested by diamond drilling up to the 1200′ level with encouraging results in some holes but the average was less than ore grade.

South of the Beaver shaft on the Cobalt Lode property, diamond drilling intersected silver values in a vein east of the main crosscut. A heading driven south on the vein encountered a short ore zone with low silver values on the level. Stoping operations have since encountered small high grade pods of silver as the stope advanced towards the overlying Diabase sill. The heading continued a further 500 feet to the south to explore the vein and to provide stations for exploration drilling in the southeast area of the property.

The exploration diamond drill program carried out at the lower contact of the Diabase sill during the past year has completed 30,661 feet of drilling. This systematic probing has provided silver intersections in five separate areas resulting in two of these being mined. Some drilling has also been done on the 1200′ level and the 1400′ level of the Beaver shaft where silver values of less than ore grade were found.

Further exploration drilling is required to cover the remaining unexplored ground.

Colonial Project – A diamond drill program was carried out from #2 Adit of the Colonial property to explore the Keewatin lavas near the overlying Diabase sill. After having tested several potential silver zones from the old workings without encountering silver values, the program was terminated.

The following is a tabulation of this exploration and development:

	1977 Footage	Unit Cost	1976 Footage	Unit Cost
Crosscutting & Drifting	1,743	$136.33	2,948	$120.68
Raising	337	80.55	276	99.55
U/G Diamond Drilling	33,591	8.74	18,380	9.80
Surface Diamond Drilling	—	—	378	5.66

Labour Relations – A new labour contract was negotiated with the United Steelworkers of America for a period of two years effective July 1, 1977. The contract provides for wage increases in each of the two years, covering all hourly rate employees.

In conclusion, I wish to extend my appreciation to the Board of Directors, staff and employees for their co-operation and assistance throughout the year.

Respectfully submitted,

G. W. KIRK, P.Eng.,
Manager.

Consolidated Balance Sheet

AS AT DECEMBER 31, 1977

ASSETS

CURRENT ASSETS

Cash
Accounts receivable
Marketable securities (quoted market value; 1977 — $281,445; 1976 — $227,477)
Concentrates on hand
Supplies on hand
Prepaid expenses and deposits
Advances to affiliated companies — 10%

FIXED ASSETS (Note 2)

MINING CLAIMS AND PROPERTIES (Note 3)

DEFERRED EXPENDITURES

Silver Division
Gold Division

OTHER ASSETS

Shares of unlisted companies, at nominal value
Shares of unlisted companies, at cost
Amalgamation expenses, at cost

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank indebtedness, secured by inventory, receivables and fixed assets
Accounts payable and accrued charges
Advances from affiliated companies — 10%

MINORITY INTEREST IN SUBSIDIARY

SHAREHOLDERS' EQUITY

Capital (Note 4)
Authorized — 20,000,000 Shares without par value
Issued 13,861,827 Shares
Retained Earnings (Deficit)

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors

PAUL PENNA, Director
MILTON KLYMAN, Director

AGNICO-EAGLE
mines limited

1977	1976
$ 5,496	$ 8,179
702,151	433,564
204,259	249,121
459,421	386,957
579,712	512,133
297,152	372,032
95,928	—
2,344,119	1,961,986
5,506,477	6,675,552
471,426	583,426
1,512,585	1,303,410
4,788,543	5,118,631
6,301,128	6,422,041
3	3
107,620	
82,879	82,879
190,502	82,882
$ 14,813,652	$ 15,725,887
$ 1,184,657	$ 1,705,000
1,000,173	945,632
—	85,072
2,184,830	2,735,704
5,100	5,100
12,947,145	12,947,145
(323,423)	37,938
12,623,722	12,985,083
$ 14,813,652	$ 15,725,887

AUDITORS' REPORT

To the Shareholders of
Agnico-Eagle Mines Limited

We have examined the consolidated balance sheet of Agnico-Eagle Mines Limited as at December 31, 1977 and the consolidated statements of deficit, income, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN,
BERGER & GRILL

Chartered Accountants

Toronto, Ontario
March 1, 1978

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1977

	1977	1976
REVENUE		
Production of metals	$11,069,222	$ 8,702,653
Less: Marketing	229,302	143,214
Royalties	4,967	—
	234,269	143,214
	10,834,953	8,559,439
EXPENSES		
Mining	4,028,987	3,514,188
Milling	3,527,429	3,119,465
Administration	558,771	508,488
Financing	134,506	176,879
Transportation of mill ore	136,538	113,770
	8,386,231	7,432,790
Less: Sundry income	9,390	7,083
Profit on sale of marketable securities	127,404	—
	136,794	7,083
	8,249,437	7,425,707
INCOME BEFORE UNDERNOTED ITEMS	2,585,516	1,133,732
Amortization of deferred expenditures	1,685,857	1,429,433
Depreciation of buildings, machinery and equipment	1,261,020	1,066,537
	2,946,877	2,495,970
NET LOSS FOR THE YEAR	$ (361,361)	$(1,362,238)
LOSS PER SHARE	(2.6¢)	(9.8¢)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1977

	1977	1976
RETAINED EARNINGS — beginning of year	$ 37,938	$ 1,400,176
Net loss for the year	(361,361)	(1,362,238)
RETAINED EARNINGS (DEFICIT) — end of year	$ (323,423)	$ 37,938

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1977

	1977	1976
SOURCES OF WORKING CAPITAL		
From Operations		
Net loss for the year	$ (361,361)	$ (1,362,238)
Add: Items which do not require a current outlay of working capital		
— depreciation	1,261,020	1,066,537
— amortization of deferred expenditures	1,685,857	1,429,433
	2,585,516	1,133,732
APPLICATIONS OF WORKING CAPITAL		
Deferred expenditures — Gold Division	759,122	277,701
Deferred expenditures — Silver Division	693,822	736,908
Buildings, machinery and equipment (net)	91,945	218,103
Purchase of unlisted shares, at cost	107,620	—
	1,652,509	1,232,712
INCREASE (DECREASE) IN WORKING CAPITAL	933,007	(98,980)
WORKING CAPITAL DEFICIENCY — beginning of year	(773,718)	(674,738)
WORKING CAPITAL (DEFICIENCY) — end of year	$ 159,289	$ (773,718)

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1977

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

ACCOUNTING FOR SUBSIDIARIES

These financial statements include the accounts of the Company's 97% owned subsidiary, Telbel Mines Limited. The investment in the Company's dormant wholly-owned subsidiaries is carried at nominal value.

DEFERRED EXPENDITURES AND AMORTIZATION

The amounts shown for deferred expenditures represent costs to date less amounts written off and are not intended to reflect present or future values. Exploration costs related to unknown or unproven ore bodies are deferred until such time as production occurs. Development costs related to the shaft deepening program at the Gold Division are being deferred until this area is brought into production. Amortization of deferred expenditures is calculated on a unit of production basis based on the total ore reserves of each mine.

DEPRECIATION

The Gold Division records depreciation on a unit of production basis based on the total ore reserves of the mine. The Silver Division records depreciation on a 30% declining balance basis due to the erratic nature of the ore bodies.

INVENTORIES

Supplies are valued at average cost. Broken ore on surface is not valued; the related costs are written off to operations as incurred. Concentrates on hand are valued at estimated realizable value.

PLANT AND EQUIPMENT ADDITIONS AND REPAIRS

Repairs and maintenance are charged to operations or deferred expenditures while additions, replacements or improvements to existing plant and equipment are capitalized.

2. **FIXED ASSETS**

The fixed asset balance by division is as follows:

	1977	1976
SILVER DIVISION		
Buildings, machinery and equipment, at cost	$ 2,603,006	$ 2,598,836
Less: Accumulated depreciation	2,512,343	2,476,834
	90,663	122,002
GOLD DIVISION		
Buildings, machinery and equipment, at cost	9,003,250	8,915,475
Less: Accumulated depreciation	3,587,436	2,361,925
	5,415,814	6,553,550
	$ 5,506,477	$ 6,675,552

3. **MINING CLAIMS AND PROPERTIES**

The company owns approximately 97% of the outstanding capital stock of Telbel Mines Limited. The chief assets of Telbel Mines Limited are mining development licences on 34 claims adjacent to the company's Gold Division mining property.

In 1974 the Company was the successful bidder on two mining leases in the Cobalt Area, formerly known as the Coniagas and Trethewey mines, for a first year lease rental payment of $252,000 which has been included in mining claims and properties. This lease rental payment is being amortized on the same basis as the deferred exploration on the property. In subsequent years nominal lease rental payments are required.

4. **CAPITAL**

The Company has allotted 200,000 shares for a stock option for its President at $7.45 per share until August 15, 1984. No part of the option has been exercised to date.

5. **INCOME TAXES**

For income tax purposes the Company may claim certain expenses in amounts which may differ from the related provisions recorded for accounting purposes.

In addition to unused deductions for exploration, development, administration and capital cost allowance which may be claimed at varying rates for tax purposes against future profits of the Company, the Company may also write off against mining profits a portion of its earned depletion base The depletion base is presently accumulated at the rate of $1 for every $3 spent in eligible expenditures and is deducted at the rate of $1 for every $4 earned in mining profits. As at December 31, 1977 the Company had approximately $10,000,000 in unused deductions resulting from timing differences and approximately $15,000,000 in its earned depletion base.

6. **COMMITMENTS**

In 1975 the Company entered into a pension plan for all salaried employees. According to the terms of the plan there were certain past service funding requirements which are being funded and charged to retained earnings in equal instalments over 15 years commencing in 1975. As of December 31, 1977 the unfunded unamortized liability is approximately $180,000.

7. **OTHER STATUTORY INFORMATION**

Aggregate direct remuneration of directors and senior officers as defined amounted to $292,842 for the year ended December 31, 1977.

8. **MINING TAXES PAYABLE**

The Company is appealing an assessment of Ontario mining taxes in the amount of approximately $137,000 for 1973.

9. **ANTI-INFLATION LEGISLATION**

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued regulations which are presently in force. Under this legislation which is due to expire October 14, 1978, the Company is subject to mandatory controls restricting the payment of dividends to shareholders. The maximum annual dividend that could be paid is limited to 25% of the Company's net income for the year ended December 31, 1975.

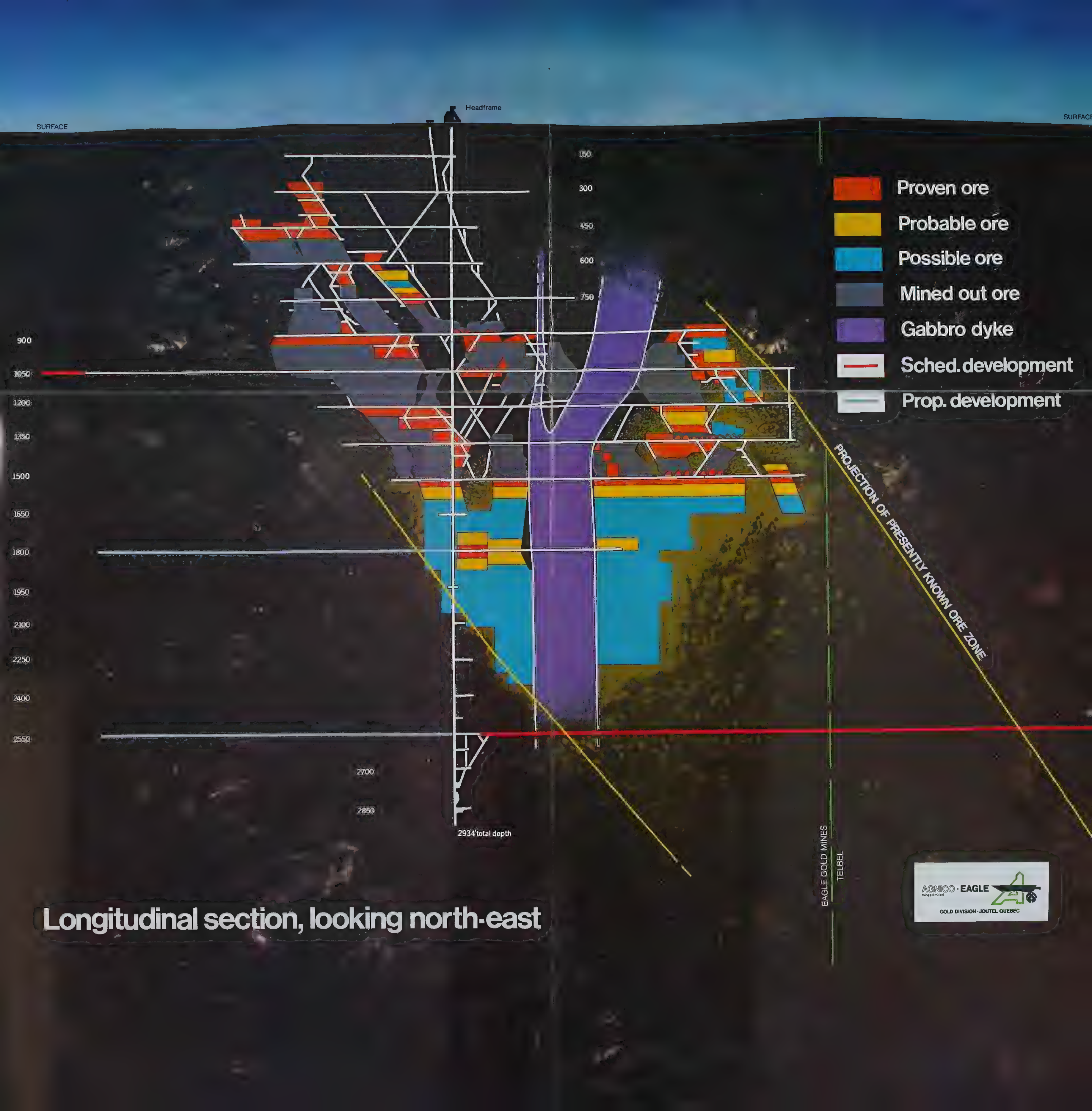
10. **PRIOR YEAR FIGURES**

Certain 1976 figures have been reclassified to conform with the presentation adopted for 1977.

These scenes show Scooptrams mucking ore from the stope areas, the ore is then hauled to the ore pass system and dropped to the underground primary crusher.


Property Plan
Joutel Township, Quebec
HARRICANA
RIVER
Longitudinal section
SHAFT
Property holdings of subsidiary company 34 claims
N
0
1
MILES

These scenes show Scooptrams mucking ore from the stope areas, the ore is then hauled to the ore pass system and dropped to the underground primary crusher.

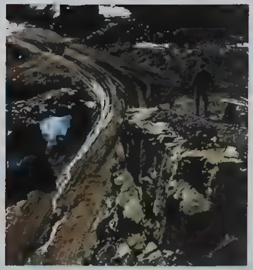


Longitudinal section, looking north-east


Coniagas Mine Division, Cobalt, Ontario


Open stope at Coniagas Mine


Loading ore at open stope area, Coniagas Mine


Access road to Coniagas Mine

Agnico-Eagle

Agnico-Eagle Mines Ltd., Toronto.

Loss for six months ended June 30, 1977, $466,786 or 3.4 cents a share, compared with a loss of $380,192 or 2.7 cents a share a year earlier.

Revenue $4,652,117, compared with $4,347,380.

First half operating profit was $689,847, compared with $592,382 in the corresponding 1976 period. Deduction of non-current charges for depreciation and amortization resulted in the loss.

Operation of the Penn mill started on May 9 and silver production to June 30 was 43,315 ounces on tonnage milled of 11,740 tons of ore. First half gold production decreased to 29,719 ounces

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from 32,069, reflecting the mining and treatment of lower grade ores with a resultant lower recovery grade.

Printed in Canada.

Top is scene of surface milling plant, Joutel Twp. gold division, looking south across Harricana River. Bottom is view of Penn Mill, Cobalt silver mining division.

AGNICO·EAGLE
mines limited

SEMI-ANNUAL REPORT
for the Period Ended June 30, 1977

AGNICO · EAGLE
mines limited

SILVER DIVISION · COBALT ONTARIO

Agnico · Eagle holdings in the Cobalt silver camp, Ontario

AGNICO-EAGLE MINES LIMITED

CONSOLIDATED STATEMENT OF INCOME
(Prepared Without Audit)

	Six Months Ended June 30 1977	1976
REVENUE		
Production of metal	$ 4,652,117	$ 4,347,380
Less: Marketing and royalties	65,285	77,833
	4,586,832	4,269,547
EXPENSES		
Mining	1,962,052	1,797,401
Milling	1,620,431	1,485,410
Administration	327,480	299,077
Financing	85,459	77,744
Transportation of mill ore	37,715	21,695
	4,033,137	3,681,327
Less: Sundry income	2,493	4,662
Profit on sale of marketable securities	133,659	–
	136,152	4,662
	3,896,985	3,676,665
INCOME BEFORE UNDERNOTED ITEMS	689,847	592,882
Amortization of deferred expenditures	604,209	489,634
Depreciation of building, machinery and equipment	552,424	483,440
	1,156,633	973,074
LOSS FOR THE PERIOD	$ (466,786)	$ (380,192)
LOSS PER SHARE	(3.4¢)	(2.7¢)

NOTE: Certain 1976 figures have been reclassified to conform with the presentation adopted for 1977.

AGNICO-EAGLE MINES LIMITED

Suite 300, 365 Bay Street
Toronto, Canada M5H 2V1

To the Shareholders:

The Directors present the unaudited consolidated financial statements of the Company for the six months ended June 30, 1977. Comparative financial results for the corresponding period in 1976 are also included.

Consolidated Financial Results

Net revenue from the production of gold and silver bullion for the six months ended June 30, 1977 amounted to $4,586,832 as compared with $4,269,547 for the corresponding period in 1976.

The average price received for gold produced during the six months to June 30, 1977 was $148.33 per ounce as opposed to $127.53 for the same period in 1976.

Cash flow for the six months ended June 30, 1977 amounted to $689,847 versus $592,882 for the same period in 1976. Cash flow represents income before deductions totalling $1,156,633 for non-current charges for depreciation and amortization, items which do not require an actual cash outlay.

Deduction of these non-current charges for depreciation and amortization resulted in a net loss for the six months ended June 30, 1977 of $466,786 equal to 3.4¢ per share. The comparative figures for the same period in 1976 were a net loss of $380,192 or 2.7¢ per share.

Expenditures totalling $395,798 which represent development costs relating to the shaft deepening program at the Gold Division are excluded from operating expenses in the appended Statement of Income. Other expenditures classified as deferred include $329,050 which relate to development costs at the Beaver-Temiskaming Project of the Silver Division.

Silver Division

Operation of the Penn Mill commenced on May 9th and in the subsequent period to June 30th a total of 11,740 tons of ore was treated yielding 43,315 ounces of Silver. The gross value of this silver production was $210,361 and, after deducting marketing charges of $32,653, provided a net revenue of $177,708. The source of current feed for the mill is the Coniagas Mine, principally lower grade ore broken in the open stopes near surface.

The substantial program of underground exploration and development at the Beaver-Temiskaming Project, which was described in considerable detail in the Company's 1976 Annual Report, continues to provide encouraging results. During the six months to June 30, 1977 a total of 707.5 feet of cross-cutting and drifting, together with 183.5 feet in raises and boxholes, have been completed. Underground diamond drilling during this period totalled nearly 15,000 feet. During July, an additional 128 feet of drifting and 1,970 feet of diamond drilling was carried out.

As noted in the Annual Report, underground drilling revealed five separate areas where significant drill intersections have been obtained. Currently, the 1601 drift, which was started in the area of the 1601-B Vein, has now advanced to within some 200 feet of the area where the 1604 Vein intersected by an earlier drill hole and returning an assay of 333.4 ounces silver over 0.25 feet.

Underground drilling is also being carried out from the 16-14 crosscut, testing the 1601 Vein near the diabase contact. Hole 16-102 intersected the vein 186 feet above the level in diabase, assaying 39.1 ounces over 0.3 feet, and Hole 16-103 intersected the vein 146 feet above the level in Keewatin lavas, assaying 54.5 ounces over 0.4 feet.

Diamond drilling in the winze area, consisting of a series of short holes drilled beneath the level through the winze vein which established a mineralized zone with a length of 20 feet and to a depth of 70 feet, obtained several good intersections up to 58 feet below the level. This same mineralized zone could continue down another 40 feet depending upon the significance of an earlier hole which returned an intersection of 70.2 ounces silver over 3.1 feet at 106 feet below the level.

This long range program, which has been continuous since late 1975, encompasses an area of some 256 acres containing five properties which were former producing silver mines in the over-

lying upper contact of the Nipissing diabase sill. Very recently, the Company acquired a key property contiguous to the north of the Beaver and Temiskaming and flanked to the north by the Brady Lake and to the west by the Cobalt Lode properties. The appended map shows this newly acquired property which very appreciably enhances the potential of the Beaver-Temiskaming Project.

Although a modest tonnage of development and stope ore, currently stockpiled on surface at the Beaver minesite, is scheduled for treatment at the Penn Mill later this year, it is not envisaged that this property assemblage will achieve major production until 1978 and continuing into future years.

Gold Division

During the six months ended June 30, 1977 a total of 182,135 tons of ore with a calculated average grade of 0.186 ounce of gold per ton was treated, producing 29,719 ounces of gold at an average metallurgical recovery rate of 87.57%. In addition, there was a by-product recovery of 7,251 ounces of silver. The gross value of this production was $4,442,211.

For the six month period the mill treated an average of 1,006.3 tons of ore per day with the mill operating at approximately 96.4% of available time. This was an all-time throughput rate for any comparable operating period.

The comparative operating and production statistics for the same period in 1976 were the treatment of 162,019 tons of ore with a calculated average grade of 0.221 ounce of gold per ton, producing 32,069 ounces of gold at an average recovery rate of 89.73%. By-product recovery of silver amounted to 8,789 ounces. Gross value of production was $4,131,782.

The reduced production of gold during the first half of 1977 reflected the mining and treatment of lower ore grades with its accompanying lower recovery rates. Variables in the grade of ore mined in any specific period are not unusual in mining operations and will temporarily affect certain aspects of the economies of production, notably in the unit of measuring the cost per ounce of gold recovery.

The increase in the mill thoughput rate resulted in a reduction in the unit cost per ton of ore treated from $18.21 for the 1976 period to $17.21 per ton during the first half of 1977. Conversely, the cost per ounce of gold produced increased from the approximate $92.00 range for the 1976 period to about $105.00 in the first half of 1977. This is well illustrated in the operating experience during July with its unit cost of $16.56 per ton of ore treated and $88.20 per ounce of gold recovered.

Mine operating profit for the six months ended June 30, 1977, after deducting operating expenses including mining, development, milling, assaying, general surface and mine administrative and technical costs, amounted to $1,275,450. These figures exclude the cost of the shaft deepening program. The comparable figure for the same period in 1976 was $1,153,202.

The shaft deepening program is making excellent progress and completion to the objective depth of 2,965 feet is indicated to be on schedule. At the end of July the shaft had advanced past the 2700 level where a level station was cut and access drift excavated. Completion of the shaft deepening project will provide nine new production levels below the 1,500 foot horizon.

Importantly, access to this lower area of the mine will enable the first practical opportunity to probe both the downward continuation and lateral extension of this gold bearing structure since the orebody was originally delineated from the surface drilling many years ago and the subsequent underground development to the present bottom production level at 1,500 feet. The area below the 1,800 foot horizon has only been partially tested down to the approximate depth of 2,250 feet where it is indicated that an enrichment of ore grade may be expected.

As previously announced, it is planned to include the long exploration drive from the 2250 level for a distance of approximately 1,500 feet into the adjoining Company-owned Telbel property in the upcoming development program scheduled for this deeper area of the mine following the completion of the shaft to 2,965 feet.

On behalf of the Board of Directors,

Paul Penna

President and Managing Director

August 26, 1977

AGNICO-EAGLE MINES LIMITED

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(Prepared Without Audit)

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